

VZCZCXRO6632
RR RUEHBI RUEHCI
DE RUEHCG #0518/01 2340658
ZNR UUUUU ZZH
R 220658Z AUG 07
FM AMCONSUL CHENNAI
TO RUEHC/SECSTATE WASHDC 1136
INFO RUEHNE/AMEMBASSY NEW DELHI 2710
RUEHCI/AMCONSUL KOLKATA 0829
RUEHBI/AMCONSUL MUMBAI 5099
RUEHLM/AMEMBASSY COLOMBO 1354
RUCPDO/DEPT OF COMMERCE WASHINGTON DC

UNCLAS SECTION 01 OF 02 CHENNAI 000518

SIPDIS

SENSITIVE

SIPDIS

E.O. 12958: N/A

TAGS: [OVIP](#) [ECON](#) [EINV](#) [PGOV](#) [PREL](#) [SCUL](#) [CVIS](#) [IN](#)

SUBJECT: CODEL ENSIGN EXPERIENCES SOUTH INDIA'S HIGH-TECH SECTOR

REF: New Delhi 3664

¶1. (SBU) SUMMARY: Senator John Ensign (R-NV) made his first visit to Bangalore August 5-8 to see South India's info-tech boomtown firsthand. He met with top executives from several companies, including Tata Consultancy Services (TCS), Infosys, General Electric (GE), Brickwork, Texas Instruments (TI), Intel, and Wipro, and toured several of their campuses. He also discussed investment climate issues with the American Chamber of Commerce (AmCham) and NASSCOM (National Association of Software and Service Companies) and met officials from the government of Karnataka, including the Chief Secretary, at a reception. He also discussed the state of India's

SIPDIS

educational system with the Director of Bangalore's International Institute of Information Technology (IIIT-B). END SUMMARY.

If the World is Flat, Why Not Visit?

¶2. (SBU) Inspired by Thomas Friedman's writings on India and a personal charitable interest in a South Indian orphanage, Senator Ensign, the ranking minority member of the Senate's Science, Technology, and Innovation Sub-Committee, visited Bangalore to see India's high-tech heartland for himself. While functioning mainly in watch-and-listen mode, the Senator nonetheless repeatedly emphasized throughout his visit the importance of U.S.-Indian trade and the enormous economic promise of the U.S.-Indian relationship.

Common Themes: Labor, Infrastructure

¶3. (SBU) Senator Ensign heard several common themes throughout his visit. One of the most common was that high-tech companies continue to scale up their operations in India not because of the low cost of engineers (although this helps), but because India is one of the few places in the world that is producing engineers in the numbers needed. Intel, TI, and GE all touted their Indian subsidiaries' or divisions' technological contributions to products and services marketed worldwide and emphasized the key role that these divisions played in the company's overall strategy.

¶4. (SBU) Another key theme the Senator heard from U.S. and Indian company executives, AmCham members, and NASSCOM officials was the sorry state of Bangalore's infrastructure, in particular its roads. The Senator experienced several hours of Bangalore's traffic first-hand, and saw some signs of tentative improvement, including a new elevated interchange, construction work on an elevated road, and a billboard announcing a new metro system whose inception is apparently still years (if not decades) away.

¶5. (SBU) The Senator also heard from NASSCOM and AmCham members repeatedly about how India's democratic freedoms often make

improving infrastructure difficult. Building a new road (or expanding an existing one), for example, generally requires the acquisition of land, which inevitably results in lawsuits launched by those who do not wish to sell their land or who argue that they have not been offered a high enough price. These lawsuits often stretch on for years in India's sclerotic legal system, resulting in delays for almost every major infrastructure project. One member of a committee working on Bangalore's new international airport said that the airport would be ready well before it had a proper road to it because of a lawsuit involving a piece of land at a key junction.

Several of the Senator's interlocutors noted that "China wouldn't have such problems," but all seemed to accept these hindrances as a necessary cost for the maintenance of India's democracy.

Transfer Pricing: Uncle Sam's Problem

16. (SBU) Frank Jones, Intel India's president, warned Senator Ensign about the Indian government's plans to increase the taxes it charges multi-national companies. He said that Indian tax authorities are planning to increase by two to three times the prices they estimate the subsidiaries of multi-national companies pay for goods and services from their parent companies. This increase, he said, will raise significantly the taxes these subsidiaries pay in India. Calling this decision "very surprising and very arbitrary," Jones said that his company is challenging this case in India's courts. He emphasized, however, that India's decision would not affect his company's overall bottom line because it would deduct its increased taxes in India from the taxes the company paid in the United States -- a shift that would hurt the U.S. tax base.

Complaining About Visas, in a New Way

17. (SBU) While the Senator did hear a few complaints about the U.S. visa-issuing process (B. V. Naidu, Managing Director of SemIndia

CHENNAI 00000518 002 OF 002

Systems Private Ltd., said it was "galling" that he had to go to Chennai to apply for a visa), Jones complained about the visa process for Americans coming to India, especially for business visas. He said that the Indian system is slow and restrictive, making it impossible for his company to send quickly an American to India to solve problems that his Indian staff were unfamiliar with. He also said that renewing a residence permit in person -- an annual requirement -- is a notoriously laborious, old-fashioned, and paper-and-rubber-stamp intensive process that could be held up by a single bureaucrat. He urged the USG to advocate for India to adopt a more modern approach that made better use of the country's IT skills.

Concerns About High-Tech Export Controls

18. (SBU) Jones also told the Senator that U.S. export rules will create a major problem for his company within a year or two. He said that U.S. export restrictions on high-powered computers have not been updated recently and have not kept pace with the realities of technological developments. These restrictions, intended to prevent the export of the most cutting-edge technology, will soon prevent his engineers in India from collaborating with their American colleagues working on products important to his company. What is cutting-edge processing power today, he said, is far more powerful than the kinds of products that he wants his Indian engineers to work on, but the failure of export regulations to adapt to technological developments will hamper his company's ability to develop innovative products.

India's Top Students Feeling "Unwanted" in America

19. (SBU) The Director of the IIIT-B told the Senator that many Indian students still hope to study in the United States and that increasing numbers of well-heeled but academically mediocre students will continue to ensure that the overall number of Indian students at U.S. universities will continue to rise. He added, however, that

perceptions in India of an increasingly restrictive visa regime and complaints in the United States about "outsourcing American jobs to India" have made many of India's most talented students "feel unwanted," causing them increasingly to choose to study elsewhere. (COMMENT: With student visa issuances running at record levels, we do not agree that there is an increasingly restrictive student visa regime yet the Director's comments show that perceptions may not match reality. END COMMENT.)

¶10. (SBU) The Director also pointed out some of the limitations of the Indian educational system, noting that there are -- at most -- a million slots at Indian universities, with nine million high school graduates trying to cram their way in every year. He also said that India churns out some 250,000 engineering graduates annually, but that only about 2000 or so go on to advanced degrees and only about 100,000 of the engineering graduates are properly "absorbed" into the economy. Many engineering graduates, he said, are incapable of doing the sorts of work increasingly demanded by companies operating in India -- an observation echoed by executives from all of the companies the Senator visited, who uniformly claimed that they were facing increasing difficulties in finding qualified workers.

¶11. (U) Senator Ensign was accompanied by legislative aide David Quinalty, military aide Colonel Gregg Olson and Consulate General Chennai staff. Charge d'Affaires Steven White and Embassy New Delhi Political Counselor Ted Osius joined Senator Ensign for his August 6 meetings in Bangalore.

¶12. (U) CODEL Ensign did not have the opportunity to clear on this cable. This message was coordinated with Embassy New Delhi.

HOPPER